

**FEDERATED STATES OF MICRONESIA  
SOCIAL SECURITY ADMINISTRATION  
(A COMPONENT UNIT OF THE FEDERATED STATES  
OF MICRONESIA NATIONAL GOVERNMENT)**

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**FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED DECEMBER 31, 2019 and 2018**

**FEDERATED STATES OF MICRONESIA SOCIAL SECURITY ADMINISTRATION  
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT)**

Years Ended December 31, 2019 and 2018  
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## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
FSM Social Security Administration:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Federated States of Micronesia (FSM) Social Security Administration (the Administration), a component unit of the FSM National Government, which comprise the statements of fiduciary net position as of December 31, 2019 and 2018, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FSM Social Security Administration as of December 31, 2019 and 2018, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis-of-Matter***

### *Uncertainty Regarding Funded Ratio*

As discussed in Note 4 to the financial statements, the Administration may be unable to meet its future benefit obligations. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Administration's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Administration's management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2020, on our consideration of the Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Administration's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

*Deloitte & Touche LLP*

December 28, 2020

**FEDERATED STATES OF MICRONESIA SOCIAL SECURITY ADMINISTRATION  
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Management's Discussion and Analysis  
Years Ended December 31, 2019 and 2018

The following discussion and analysis provides an understanding of the Federated States of Micronesia (FSM) Social Security Administration's (FSMSSA) financial performance for fiscal year ended December 31, 2019. This section has been prepared by the management and should be read in conjunction with the FSMSSA's financial statements and accompanying notes.

**Administration**

The FSMSSA is a successor System of the former Trust Territory Social Security System. It was established by FSM Public Law 2-74 and began its full operation on January 1, 1988. The FSMSSA provides retirement, disability and survivor benefits to the citizens of the FSM.

Under Title 53 of the FSM Code, the authority to administer the FSMSSA is vested in a six-member Board of Trustees, five of whom are nominated by the President and confirmed by the Congress of the FSM. The nominations of the Board take into account the need to have adequate geographical representation and to have representatives from public and private sector employers and employees. The members and officers of the Board of Trustees are as follows:

Jack Harris State of Pohnpei	Chairman of the Board
Vincent Tafileluw State of Yap	Vice Chairman
Albert Falcam National Government	Member
Nakama Sana State of Chuuk	Member
Nena Ned State of Kosrae	Member
Alexander R. Narruhn, Administrator	Member, Exofficio

The Administrator, who is selected by the Board, is responsible for daily operations as well as supervision of branch managers from each of the four States of the FSM.

**Funding**

The FSM Social Security System is financed by employer/employee contributions at a rate of 7.5% each, or a combined tax rate of 15% paid to the system every quarter. The FSM National and State governments as well as all private employers incorporated or doing business in the FSM are subject to social security tax. Beginning January 1, 2013, the maximum quarterly taxable wage of \$6,000 is subject to an increment of \$1,000 and every 5 years thereafter for a maximum of \$10,000 until January 1, 2028. Effective January 1, 2013, both the tax rate and the maximum quarterly taxable wage have been increased from 7% to 7.5% (employee 7.5%, employer 7.5%) and from \$6,000 to \$7,000, respectively. After five years, on January 01, 2018, the maximum quarterly taxable wage has been increased to \$8,000.

Additional revenues are derived from interest and penalties charged to delinquent taxpayers, and other miscellaneous fees.

**Budget**

The FSM Public Law 5-120 mandates the FSMSSA to present an annual budget not exceeding 11% of its projected income for the ensuing fiscal year. The budget ceiling for year 2019, based on projected income of \$19.0 million, was \$2.09 million. However, as part of management's cost cutting measures, the budget was reduced to \$1.31 million, which is 6.9% of the projected income. The actual administrative costs incurred for 2019 was \$1.28 million, or 2.3% surplus, compared to the approved budget. Additional expense of \$50,000 was incurred in 2019 in payment for actuarial studies, which was scheduled during the year. In practice, however, actuarial fees are not treated as part of the budget but are treated as a reduction of investment income.

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Years Ended December 31, 2019 and 2018

**RETIREMENT FUND**

**Highlights**

- Contributions collected increased by \$177,524 or 0.9% to \$19.9 million in 2019 compared to \$19.7 million in 2018. The increased amount was attributed mainly to government contribution.
- Benefit payments to members or their beneficiaries increased by \$404,852 or 1.8% to \$22.3 million in 2019 compared to \$21.9 million in 2018. The rise in benefit payments was partly due to the return of retirees' eligibility back to 100% of benefit effective January 2016. Benefits will continue to increase every year as wage earners or their dependents become eligible for benefits.
- 6,731 beneficiaries received social security benefits as of the end of year 2019.
- 618 retirement, survivor and disability claims were received, processed and approved in 2019.
- The investment portfolio, including marketable securities, outperformed in 2019 with a market value of \$51.6 million as of December 31, 2019. Investment income was recorded at \$8.2 million or 18.7% investment return.
- Received \$1.0 million in funding from the FSM National Government, which was used to supplement benefit payments.
- Net position totaled \$55.3 million as of December 31, 2019, compared to \$49.7 million as of December 31, 2018, an increase of 11.2%.
- \$634,505 from delinquent accounts were collected in year 2019. Some delinquent employers remain non-compliant and will not pay their delinquent accounts. For this reason, more of these employers are being referred to legal counsel. As of first quarter 2020, \$1.1 million delinquent accounts are with court judgment.
- Close monitoring of expenses led to a budget surplus of 2% in year 2019.
- Received \$322,599 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2019 totaled \$233,262. In October 2019, a 3% COLA was applied to all benefits.
- Effective January 1, 2018, the maximum quarterly taxable wages has been increased from \$7,000 to \$8,000.

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**RESULTS OF OPERATIONS / CHANGES IN NET POSITION**

FSMSSA follows the calendar year as its reporting year. The following table presents information about FSMSSA results of operations for CY2019, 2018 and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contributions	\$ 19,898,329	\$ 19,720,805	\$ 18,891,261
Benefit payments	(22,331,353)	(21,926,501)	(20,508,347)
Administrative expenses	(1,331,329)	(1,284,786)	(1,193,486)
Other additions, net	<u>1,050,104</u>	<u>1,051,912</u>	<u>1,058,908</u>
Operating deficit	(2,714,249)	(2,438,570)	(1,751,664)
Investment income (loss), net	<u>8,272,573</u>	<u>(3,093,984)</u>	<u>6,597,496</u>
Change in net position	5,558,324	(5,532,554)	4,845,832
Net position at beginning of year	<u>49,704,403</u>	<u>55,236,957</u>	<u>50,391,125</u>
Net position at end of year	\$ <u>55,262,727</u>	\$ <u>49,704,403</u>	\$ <u>55,236,957</u>

**Contributions:**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Government	\$ 10,035,009	\$ 9,691,723	\$ 9,423,914
Private	9,664,838	9,661,515	9,230,403
Judgment	35,244	31,989	7,551
Penalties and interests	<u>163,238</u>	<u>335,578</u>	<u>229,393</u>
Total	\$ <u>19,898,329</u>	\$ <u>19,720,805</u>	\$ <u>18,891,261</u>

Contributions collected increased by \$177,524 or 0.9% to \$19.9 million in 2019 compared to \$19.7 million in 2018, averaging a collection of \$4.9 million per quarter. The increase in collections was attributed mainly to government contributions.

**Benefit Payments:**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Retirement	\$ 14,396,625	\$ 14,025,633	\$ 13,039,466
Survivors	5,876,597	5,758,376	5,548,737
Disability	1,790,616	1,828,928	1,718,405
Lump sum	<u>267,515</u>	<u>313,564</u>	<u>201,739</u>
Total	\$ <u>22,331,353</u>	\$ <u>21,926,501</u>	\$ <u>20,508,347</u>

Benefit payments increased by \$404,852 or 1.8% to \$22.3 million in 2019 compared to \$21.9 million in 2018. The increased amount was attributed mainly to the 618 new claims received, processed and approved in 2019. Another reason for the increase was the return of retirees' eligibility back to 100% of benefit, effective January 2016. As of December 31, 2019, there were 6,731 members or their beneficiaries who received benefits.



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Years Ended December 31, 2019 and 2018

**Administrative Expense:**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Budget	\$ 1,311,974	\$ 1,324,732	\$ 1,247,513
Actual (excluding actuarial fees)	\$ 1,281,329	\$ 1,284,786	\$ 1,193,486
Surplus	\$ 30,645	\$ 39,946	\$ 54,027
% of budget	2%	3%	4%

Administrative expense decreased by \$(3,457) or -0.2% to \$1.281 million in 2019 compared to \$1.285 million in 2018. Most expense items remain fairly stable, if not lower, as management continuously monitors its operating expenses. In 2019, an actuarial study was conducted and \$50,000 in fees were paid for services received. Actuarial fees are not part of the budget but have always been presented as a deduction from investment income.

**Investment Income (Loss):**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investments	\$ 50,020,855	\$ 43,334,631	\$ 50,043,606
Income (loss)	\$ 8,222,573	\$ (3,093,984)	\$ 6,597,496
Surplus	\$ 2,000,000	\$ 3,000,000	\$ -

Net investment income in 2019 amounted to \$8.2 million, comparing to net investment loss of \$3.1 million in 2018. A drawdown of \$2.0 million was made from the investment trust fund to supplement benefit payment in 2019.

**Other Income:**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Appropriation from FSMNG	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Prior Service Fund reimbursement	42,873	43,836	47,312
Miscellaneous receipts	29,663	30,782	34,620
Tax refunds	<u>(22,432)</u>	<u>(22,706)</u>	<u>(23,024)</u>
Total	\$ <u>1,050,104</u>	\$ <u>1,051,912</u>	\$ <u>1,058,908</u>

Other income decreased by \$1,808 or -0.2% to \$1.050 million in 2019 compared to \$1.052 million in 2018. Income received from Prior Service Fund reimbursement was equivalent to 20% of Prior Service benefits paid. Miscellaneous receipts are fees collected from Social Security cards, employer's ID card, request for allotments and request for change of address.

**NET POSITION**

FSMSSA Statements of Net Position as of December 31, 2019, 2018 and 2017 follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets</b>			
Cash and equivalents	\$ 2,144,324	\$ 2,881,516	\$ 2,209,739
Investments	50,020,855	43,334,631	50,043,606
Other assets	3,189,985	3,575,922	3,092,264
Capital assets, net	<u>61,973</u>	<u>67,463</u>	<u>71,550</u>
Total	55,417,137	49,859,532	55,417,159
<b>Liabilities</b>	<u>154,410</u>	<u>155,129</u>	<u>180,202</u>
Net position held in trust for retirement, Disability and survivors' benefits	\$ <u>55,262,727</u>	\$ <u>49,704,403</u>	\$ <u>55,236,957</u>

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Net position for the retirement fund (excluding the Prior Service Fund) increased by \$5.6 million or 11.2% to \$55.3 million in 2019 from \$49.7 million in 2018. The increase in net position was attributed mainly to the outperformance of the investment trust fund assets with market value recorded at \$51.6 million, including marketable securities, as of December 31, 2019. Net investment income during the year registered \$8.2 million or 18.7% investment return.

The FSMSSA continues to manage the Prior Service Benefits Program for FSM citizens, which is funded by the U.S. Department of the Interior, Office of Insular Affairs. For FY 2019, total funds received from the Prior Service Trust Fund Administration (PSTFA) amounted to \$322,599 while benefits paid and administrative expense totaled \$233,262 and \$47,499, respectively. A 3% cola was applied to all benefits in October 2019.

**PRIOR SERVICE FUND**

As of December 31, 2019, the Prior Service Fund had a net position of \$164,406. Contributions increased by 104.7% while benefit payments decreased by 7.7%.

Following are the Statements of Net Position as of December 31, 2019, 2018, and 2017 and the Statements of Changes in Net Position for the years ended December 31, 2019, 2018, and 2017 of PSTFA:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets	\$ 164,406	\$ 183,167	\$ 325,062
Liabilities	<u>-</u>	<u>60,964</u>	<u>55,575</u>
Net position	\$ <u>164,406</u>	\$ <u>122,203</u>	\$ <u>269,487</u>

	<u>2019</u>	<u>2018</u>	<u>2017</u>
PSTFA contributions	\$ 322,599	\$ 157,565	\$ 312,100
Benefit payments	(233,262)	(252,683)	(269,702)
Administrative expenses	(47,499)	(52,617)	(53,951)
Other additions	<u>365</u>	<u>451</u>	<u>503</u>
Change in net position	43,203	(147,284)	(11,050)
Net position at beginning of year	<u>122,203</u>	<u>269,487</u>	<u>280,537</u>
Net position at end of year	\$ <u>164,406</u>	\$ <u>122,203</u>	\$ <u>269,487</u>

**Capital Assets and Long-term Debt Activity**

At December 31, 2019, FSMSSA's capital assets was \$61,973, with gross amount of \$306,394 of depreciable assets, net of accumulated depreciation of \$244,421. Depreciation for the current year amounted to \$26,103. For additional information concerning capital assets, please refer to Note 2F to the financial statements.

The Administration has no long-term debt as of December 31, 2019.

Management's Discussion and Analysis for the year ended December 31, 2018 is set forth in the Administration's report on the audit of financial statements, which is dated June 19, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

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**Conclusion:**

The FSMSSA retirement fund net position in 2019 increased by \$5.6 million or 11.2% mainly due to the outperformance of the investment trust fund assets with investment gain recorded at 8.2 million, an 18.7% investment return. The year also saw another operational deficit due to imbalances of tax collections and benefit payments including administrative expense.

Total contributions collected amounted to \$19.9 million while benefits paid and administrative expense totaled \$22.3 million and \$1.28 million, respectively for a cash shortfall of \$2.7 million. The shortfall was funded by subsidy received from the FSM National Government in the amount of \$1.0 million and from investment drawdown of \$2.0 million.

The Board of Trustees, and management and staff of the FSMSSA will continue to pursue strategies that will help overcome some of the challenges that the Program faces. In 2019, we managed to recover \$634,505 in delinquent taxes, a major accomplishment considering the slow economic growth in the FSM.

With increased benefit payments of 1.8% and 6.9% in fiscal years 2019 and 2018 respectively, and unfunded accrued liability of \$285.7M (as of Jan 1, 2017), management endeavors to improve its operation through the following:

1. Collection of delinquent taxes;
2. Spot audits;
3. Conduct periodic eligibility survey of current beneficiaries;
4. Monitor investment performance; and
5. Control administrative expenses.
6. Amendments to Social Security Act

We would also request the FSM National Government to continue to extend financial assistance to FSMSSA to supplement its operational shortfall so that investment drawdown could be minimized and investment returns maximized.

**2020 Outlook**

FSMSSA is projecting another operational loss in 2020 and approximately \$4.0 million will be needed in supplemental funding to fully fund the benefits expected to be paid during the year.

Collection for 2020 is projected to grow by 1.5%, the average increase for the past three years. However, any increase in collection could be partially offset by non-compliance of contribution payments from some employers. Despite the imposition of criminal penalties to employer offenders of FSM Social Security Act as mandated by PL-15-73, there are still some employers who are noncompliant. As of first quarter 2020, the tax receivables totaled \$5.0 million of which \$3.0 million pertains to closed/inactive employers while the remaining \$2.0 million are for active delinquent employers. Out of the total tax receivables, \$2.4 million are with court judgments. Management will continue to remain focused on increasing collection from delinquent accounts and to make employers pay their current quarterly tax dues by ongoing spot audits that will include most of the employers in all of the FSM States. Having said this, collections from contributions are estimated to be approximately \$20.1 million including collection from delinquent accounts.

Benefits will continue to increase in 2020 because of new claims that will be received, processed and approved during the year. We are projecting a 2.9% increase for this year which is the average increase for the past three years. Total benefits projected for 2020 is \$22.9 million.

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Administrative cost is projected to be lower if not approximately equal to 2019. Management will continue to implement the cost cutting measures being practiced for the past several years. Foregoing, benefit payments will increase faster than collections. It is projected that approximately \$4.0 million will be needed in additional funding to supplement benefit payments and administrative expenses in 2020. The deficit is anticipated to be funded with cash withdrawals from investments and/or funding from the FSM National Government.

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This MD&A is designed to provide our citizens, taxpayers, creditors and other interested parties with a general overview of the FSMSSA's finances and to demonstrate its accountability to funding agencies. Questions concerning any of the information provided in this discussion or requests for information should be addressed to the Administrator, FSM Social Security Administration at P.O. Box L, Kolonia, Pohnpei, FSM 96941

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Statements of Fiduciary Net Position  
December 31, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,308,424	\$ 3,064,758
Receivables:		
Contributions	3,176,055	3,505,730
Other	13,636	22,205
Total receivables	3,189,691	3,527,935
Prepayments	600	794
Investments:		
Fixed income	16,066,078	14,667,430
Stocks	33,954,777	28,667,201
Total investments	50,020,855	43,334,631
Capital assets, net	61,973	67,463
Total assets	55,581,543	49,995,581

LIABILITIES

Accounts payable	127,162	143,804
Other liabilities and accruals	27,248	25,171
Total liabilities	154,410	168,975

Contingencies

NET POSITION

Held in trust for retirement, disability and survivors' benefits	\$ 55,427,133	\$ 49,826,606
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See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position  
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Additions:		
Contributions	\$ 19,898,329	\$ 19,720,805
Investment income (loss):		
Net change in the fair value of investments	7,294,758	(4,033,152)
Interest and dividends	1,264,865	1,236,127
Total investment income (loss)	8,559,623	(2,797,025)
Less investment expense:		
Investment management and custodial fees	(286,685)	(296,508)
Net investment income (loss)	8,272,938	(3,093,533)
Other additions:		
Contributions from FSM National Government	1,000,000	1,000,000
Other	395,135	232,183
	<u>1,395,135</u>	<u>1,232,183</u>
Total additions	<u>29,566,402</u>	<u>17,859,455</u>
Deductions:		
Benefit payments:		
Retirement	14,477,467	14,121,716
Survivors	6,029,017	5,914,975
Disability	1,790,616	1,828,928
Lump sum	267,515	313,564
Total benefit payments	22,564,615	22,179,183
Refunds	22,432	22,706
Administrative	1,378,828	1,337,404
Total deductions	<u>23,965,875</u>	<u>23,539,293</u>
Change in net position	5,600,527	(5,679,838)
Net position at beginning of year	<u>49,826,606</u>	<u>55,506,444</u>
Net position at end of year	<u>\$ 55,427,133</u>	<u>\$ 49,826,606</u>

See accompanying notes to financial statements.

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Notes to Financial Statements  
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(1) Organization

The Federated States of Micronesia (FSM) Social Security Administration (the Administration) was established by Public Law 2-74, passed on February 8, 1983, and began operations on October 1, 1987, for the purpose of administering the FSM Social Security Retirement Fund (the Fund) through the provision of retirement, disability and death benefits to qualified individuals and their survivors. The Administration is administered under the authority of a six-member Board of Trustees, five of whom are appointed by the President of the Federated States of Micronesia. The Administrator, who is selected by the Board, serves as an ex-officio member. Additionally, the Administrator is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see Note 7). Accordingly, the Administrator established the Prior Service Fund to account for activities under this program.

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, establish financial reporting standards for governmental entities, which includes the requirement for the Administration to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements. In addition, these statements require that resources be classified for accounting and reporting purposes as held in trust for retirement, disability and survivors' benefits. Management of the Administration has determined that per its enabling legislation, net position of the Administration is to be held in trust for retirement, disability and survivors' benefits.

A. Basis of Accounting

The Administration is accounted for as a Fiduciary Fund Type - Private Purpose Trust Fund and is a component unit of the FSM National Government. The Administration prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as revenues in the quarter employee earnings are paid. Retirement benefits are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

B. Future Liabilities and Contributions

No recognition is given in the accompanying financial statements to the present value of the liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

C. Cash and Cash Equivalents

For the purposes of the statements of fiduciary net position, cash and cash equivalents include cash on hand, and cash in checking and savings accounts as well as short-term investments in money market funds with a maturity date within three months of the date acquired.

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(2) Summary of Significant Accounting Policies, Continued

D. Investments

Investments and related investment earnings are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

E. Deposits and Investments

The deposit and investment policies of the Administration are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of the Administration's investments. Legally authorized investments are as follows:

- (i) Government obligations - Obligations issued or guaranteed as to principal and interest by the FSM National Government and/or State governments of the Federated States of Micronesia or by the Government of the United States, provided that the principal and interest on each obligation are payable in the currency of the United States.
- (ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the Federated States of Micronesia or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is issued by an agency of the United States Government, the FSM National Government, or is rated in one of the three highest categories by two nationally recognized rating agencies. No investment under this heading shall exceed ten percent of the market value of the Fund or ten percent of the outstanding value of the issue at the time of purchase.
- (iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the Federated States of Micronesia or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by the Administration's investment advisor at the time of purchase, that not more than five percent of the market value of the Fund shall be invested in the stock of any one corporation, and that not more than ten percent of the market value of the Fund shall be invested in any one industry group.
- (iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Federated States of Micronesia or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent of all investments of the Fund.



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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Administration's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Administration does not have a deposit policy for custodial credit risk.

As of December 31, 2019 and 2018, the carrying amount of the Administration's total cash and cash equivalents was \$2,308,424 and \$3,064,758, respectively, and the corresponding bank balances were \$2,572,066 and \$3,404,889, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance or coverage by Securities Investor Protection Corporation (SIPC). As of December 31, 2019 and 2018, bank deposits in the amount of \$500,000 were FDIC insured. As of December 31, 2019 and 2018, bank deposits in the amount of \$1,558,981 and \$1,978,212, respectively, were subject to SIPC insurance coverage. The Administration does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments:

As of December 31, 2019 and 2018, investments are as follows:

	<u>2019</u>	<u>2018</u>
Fixed income securities:		
Domestic fixed income	\$ 16,066,078	\$ 14,667,430
Other investments:		
Domestic equities	13,596,788	11,138,025
International equities	10,555,240	8,620,899
Exchange traded funds	5,459,316	4,937,190
Real estate investment trust and tangibles	<u>4,343,433</u>	<u>3,971,087</u>
	<u>\$ 50,020,855</u>	<u>\$ 43,334,631</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The Administrator does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

As of December 31, 2019, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury and agencies obligations	\$ 334,980	\$ 1,513,983	\$ 2,486,706	\$ 1,460,354	\$ 5,796,023
Mortgage and asset-backed securities	-	-	127,251	419,367	546,618
Corporate notes and bonds	<u>190,990</u>	<u>7,025,221</u>	<u>1,930,787</u>	<u>576,439</u>	<u>9,723,437</u>
	<u>\$ 525,970</u>	<u>\$ 8,539,204</u>	<u>\$ 4,544,744</u>	<u>\$ 2,456,160</u>	<u>\$ 16,066,078</u>

As of December 31, 2018, the Administration's investments in fixed income securities were as follows:

	<u>Investment Maturities (In Years)</u>				<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater Than 10</u>	
U.S. Treasury and agencies obligations	\$ 1,694,855	\$ 1,739,414	\$ 2,159,117	\$ 1,729,542	\$ 7,322,928
Mortgage and asset-backed securities	-	-	388,259	661,206	1,049,465
Corporate notes and bonds	<u>425,314</u>	<u>5,270,460</u>	<u>599,263</u>	-	<u>6,295,037</u>
	<u>\$ 2,120,169</u>	<u>\$ 7,009,874</u>	<u>\$ 3,146,639</u>	<u>\$ 2,390,748</u>	<u>\$ 14,667,430</u>

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The Administration's exposure to credit risk in domestic fixed income securities at December 31, 2019 and 2018, was as follows:

<u>Standard and Poors' Rating</u>	<u>2019</u>	<u>2018</u>
AAA/AAA	\$ 5,796,023	\$ 7,322,927
AA1/AA+	80,660	519,935
AA2/AA	-	220,191
A1/A+	793,617	714,657
A1/A	633,576	491,394
A1/AA-	728,074	302,433
A2/A+	-	534,665
A2/A	1,948,996	-
A2/A-	2,044,789	1,633,539
A3/A-	639,734	1,237,403
A3/BBB+	2,446,551	640,821
Not rated/A-	407,438	-
Not rated	<u>546,620</u>	<u>1,049,465</u>
	<u>\$ 16,066,078</u>	<u>\$ 14,667,430</u>

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Administration will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Administration's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the Administration's name by the Administration's custodial financial institutions at December 31, 2019 and 2018. The Administration's agent is not affiliated with or related to investment brokers. Accordingly, these investments are not exposed to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the Administration. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There was no concentration of credit risk for investments as of December 31, 2019 and 2018.

The Administration categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Administration has the following recurring fair value measurements as of December 31, 2019 and 2018:

	December 31, 2019	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 16,066,078	\$ -	\$ 16,066,078	\$ -
Equity securities	24,152,028	24,152,028	-	-
Exchange traded funds	5,459,316	5,459,316	-	-
Real estate investment trust and tangibles	<u>4,343,433</u>	<u>4,343,433</u>	-	-
	\$ <u>50,020,855</u>	\$ <u>33,954,777</u>	\$ <u>16,066,078</u>	\$ <u>-</u>

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(2) Summary of Significant Accounting Policies, Continued

E. Deposits and Investments, Continued

Investments, Continued:

	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Fixed income securities	\$ 14,667,430	\$ -	\$ 14,667,430	\$ -
Equity securities	19,758,924	19,758,924	-	-
Exchange traded funds	4,937,190	4,937,190	-	-
Real estate investment trust and tangibles	<u>3,971,087</u>	<u>3,971,087</u>	<u>-</u>	<u>-</u>
	<u>\$ 43,334,631</u>	<u>\$ 28,667,201</u>	<u>\$ 14,667,430</u>	<u>\$ -</u>

F. Depreciable Capital Assets

The cost of capital assets, if greater than \$250, is capitalized at the time of acquisition. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

Capital asset activity for the years ended December 31, 2019 and 2018, was as follows:

	Estimated Useful Lives	January 1, 2019	Additions	Retirements	December 31, 2019
Motor vehicles	5 years	\$ 104,908	\$ 12,907	\$ (21,319)	\$ 96,496
Computer software and hardware	5 years	103,190	4,892	(6,890)	101,192
Office furniture, fixtures and equipment	5 years	104,281	2,814	(4,550)	102,545
Home furnishings	5 years	<u>6,161</u>	<u>-</u>	<u>-</u>	<u>6,161</u>
		318,540	20,613	(32,759)	306,394
Less accumulated depreciation		<u>(251,077)</u>	<u>(26,103)</u>	<u>32,759</u>	<u>(244,421)</u>
		<u>\$ 67,463</u>	<u>\$ (5,490)</u>	<u>\$ -</u>	<u>\$ 61,973</u>

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(2) Summary of Significant Accounting Policies, Continued

F. Depreciable Fixed Assets, Continued

	<u>Estimated Useful Lives</u>	<u>January 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2018</u>
Motor vehicles	5 years	\$ 116,685	\$ 14,801	\$ (26,578)	\$ 104,908
Computer software and hardware	5 years	106,486	6,388	(9,684)	103,190
Office furniture, fixtures and equipment	5 years	105,257	5,215	(6,191)	104,281
Home furnishings	5 years	<u>6,140</u>	<u>546</u>	<u>(525)</u>	<u>6,161</u>
		334,568	26,950	(42,978)	318,540
Less accumulated depreciation		<u>(263,018)</u>	<u>(31,037)</u>	<u>42,978</u>	<u>(251,077)</u>
		\$ <u>71,550</u>	\$ <u>(4,087)</u>	\$ <u>-</u>	\$ <u>67,463</u>

G. Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Administration has no items that qualify for reporting in this category.

H. Deferred Inflows of Resources

In addition to liabilities, the statements of fiduciary net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Administration has no items that qualify for reporting in this category.

I. Contributions

Contributions to the Fund are governed by the Federated States of Micronesia Social Security Act of 1983 (the "Act"), which imposes a tax on the quarterly income of every employee not currently subject to the United States Social Security Administration or any other recognized social security system. There is imposed on the income of every applicable employee a tax equal to 7.5% of wages effective January 1, 2013. Maximum quarterly taxable wages are \$8,000 effective January 1, 2018, \$9,000 effective January 1, 2023, and \$10,000 effective January 1, 2028. Every employer is required to contribute an amount equal to that contributed by employees.

Contribution revenues recorded during the years ended December 31, 2019 and 2018 are comprised of the following:

	<u>2019</u>	<u>2018</u>
Government employment	\$ 10,035,009	\$ 9,691,723
Private employment	9,664,839	9,661,515
Judgments	35,244	31,989
Penalties and interest	<u>163,237</u>	<u>335,578</u>
	\$ <u>19,898,329</u>	\$ <u>19,720,805</u>

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(2) Summary of Significant Accounting Policies, Continued

J. Benefit Obligations

Benefits are paid to every person who is a fully insured individual as defined by the Act, has attained sixty-five (65) or sixty (60) years of age if decided to receive 50% of benefits, and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry or work. Eligible children who are not married or are not working may also receive benefits until age eighteen (18) or up to age twenty-two (22) if in school.

Eligible children who become disabled before age twenty-two (22) will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death at which time retirement or survivor benefits become available.

Benefits are paid monthly and are computed on an annual basis of 16.5% of the first \$10,000 of cumulative covered earnings, plus 3% of the next \$30,000, 2% of any earnings in excess of \$40,000 but not in excess of the next \$262,500, and 1% of any earnings in excess of \$302,500. As of December 31, 2019 and 2018, the minimum monthly benefit payment is \$100.

K. New Accounting Standards

During the year ended December 31, 2019, the Administration implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.
- GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units.

The implementation of these statements did not have a material effect on the Administration's financial statements.

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(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. With the exceptions of GASB Statement No. 90 and 84, management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

L. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) require management to make estimates and assumptions that affect the reported amounts of net position and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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(2) Summary of Significant Accounting Policies, Continued

M. Risk Management

The Administration is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Administration has elected to purchase automobile and property and casualty insurance from independent third parties for the risks of loss to which it is exposed. The Administration is substantially self-insured for all other risks. Settled claims have not exceeded commercial coverage in any of the past three years.

(3) Net Position Held in Trust

Net position is held in trust to comply with the Social Security Act of 1983. All net position of the Administration is to be used for retirement, disability and survivors' benefits.

(4) Contingencies

Benefit Payments

The Administration is aware of liabilities of the fund related to retroactive benefit payments for wages not posted to the system due to unmatched social security numbers or names provided by employers, as well as liabilities related to overpayment of contributions. Management is unable to determine a reasonable estimate of the abovementioned liabilities at this time; however, management is of the opinion that the amount is not material to the financial statements as a whole.

Litigation

The Administration is periodically a defendant in legal actions inherent to the nature of its operations. Management is of the opinion that resolution of any matters existing as of December 31, 2019 and 2018 will not have a material effect on the accompanying financial statements.

Insufficient Funded Ratio

In February 2019, the Administration obtained an actuarial valuation of the Fund as of January 1, 2017. The valuation reported actuarial accrued liabilities and market value of assets for the Fund of \$285 million and \$50.7 million, respectively, as of January 1, 2017, representing a funded ratio of 15%. As of December 31, 2019, the Administration recorded total fund equity of \$55,262,727, in the Fund, as funds available to fund future benefit obligations. These conditions indicate that the Administration may be unable to meet its future benefit obligations.

The Administration is of the opinion that there are outstanding contributions due to the Fund; however, a reasonable estimate of this amount cannot be made due primarily to noncompliance by employers.



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(5) Commitments

The Administration leases office spaces in each of its four locations with leases expiring through 2023.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 55,967
2021	26,604
2022	9,804
2023	<u>409</u>
	\$ <u>92,784</u>

(6) Contributions from FSM National Government

The Administration receives periodic appropriations from the Congress of the FSM to subsidize monthly benefit payments. For each of the years ended December 31, 2019 and 2018, contributions received from the FSM National Government were \$1,000,000.

(7) Prior Service Claims

Under the terms of a Prior Service Claim Adjudication Service Agreement between the Social Security Administration of the Federated States of Micronesia and the Trust Territory Prior Service Trust Fund, the Administration is to provide for the processing of benefit claims and to assist in the monitoring of continuing eligibility under the Prior Service Program. The Prior Service Trust Fund Administration (PSTFA) will reimburse the Administration \$8,000 per annum plus an amount equal to eight percent of the total amount of automated and manual benefit payments. Any cost for the Administration personnel who assist in searching and locating prior service documents in cooperation with the Prior Service Administration will be reimbursed on a dollar for dollar basis.

On September 15, 2005, an agreement was entered into between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations and responsibility for the enrollees eligible for Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, the Federated States of Micronesia and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration (SSA) of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds.

The Administration assumed administrative functions and for the years ended December 31, 2019 and 2018, received an allocation of \$322,599 and \$157,565, respectively, from PSTFA. Total benefit and administrative expenses for the years ended December 31, 2019 and 2018 amounted to \$280,761 and \$305,300, respectively. However, while the Administration accepts the liability for any amounts received, the Administration does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of December 31, 2019 and 2018, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$164,406 and \$122,203, respectively.

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**(8) Retirement Plan**

The Administration has established a defined contribution retirement savings plan (the Plan) for its employees administered by a private corporation. All contract employees and other permanent employees with at least three months of service are eligible to participate in the Plan. Employee contributions can be made up to 100% of earnings. Employees have the option of electing to receive matching contribution or based contribution, which are both discretionary and subject to change by the Administration on a plan year basis. The Administration's Administrator is the designated plan administrator. During the years ended December 31, 2019 and 2018, the Administration incurred an expense of \$13,603 and \$14,933, respectively, for matching contributions. As of December 31, 2019 and 2018, total plan assets were \$116,140 and \$76,361, respectively. Management is of the opinion that the retirement plan assets do not constitute assets of the Administration.

**(9) Subsequent Event**

As a result of the spread of the COVID-19 coronavirus, governments worldwide implemented actions to restrict travel and economic activities. Uncertainties have arisen, which may have negative impact on the Administration's financial and operational results, especially in the fair value of its investment securities. Such potential impacts are unknown at this time.

Management has considered subsequent events through December 28, 2020, upon which the financial statements were available to be issued. Except for the matter discussed above, there are no other material subsequent events that would require recognition or disclosure in the financial statements for the year ended December 31, 2019.

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Combining Statement of Fiduciary Net Position  
December 31, 2019

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,144,324	\$ 164,100	\$ 2,308,424
Receivables:			
Contributions	3,176,055	-	3,176,055
Other	13,330	306	13,636
Total receivables	<u>3,189,385</u>	<u>306</u>	<u>3,189,691</u>
Prepayments	<u>600</u>	<u>-</u>	<u>600</u>
Investments:			
Fixed income	16,066,078	-	16,066,078
Stocks	33,954,777	-	33,954,777
Total investments	<u>50,020,855</u>	<u>-</u>	<u>50,020,855</u>
Capital assets, net	<u>61,973</u>	<u>-</u>	<u>61,973</u>
Total assets	<u>55,417,137</u>	<u>164,406</u>	<u>55,581,543</u>
<u>LIABILITIES</u>			
Accounts payable	127,162	-	127,162
Other liabilities and accruals	27,248	-	27,248
Total liabilities	<u>154,410</u>	<u>-</u>	<u>154,410</u>
<u>NET POSITION</u>			
Held in trust for retirement, disability and survivors' benefits	<u>\$ 55,262,727</u>	<u>\$ 164,406</u>	<u>\$ 55,427,133</u>

See Accompanying Independent Auditors' Report.

**FEDERATED STATES OF MICRONESIA  
SOCIAL SECURITY ADMINISTRATION  
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT)**

Combining Statement of Changes in Fiduciary Net Position  
Year Ended December 31, 2019

	<u>Retirement Fund</u>	<u>Prior Service Fund</u>	<u>Total</u>
Additions:			
Contributions	\$ 19,898,329	\$ -	\$ 19,898,329
Investment income:			
Net change in the fair value of investments	7,294,758	-	7,294,758
Interest and dividends	<u>1,264,500</u>	<u>365</u>	<u>1,264,865</u>
Total investment income	8,559,258	365	8,559,623
Less investment expense:			
Investment management and custodial fees	<u>(286,685)</u>	<u>-</u>	<u>(286,685)</u>
Net investment income	<u>8,272,573</u>	<u>365</u>	<u>8,272,938</u>
Other additions:			
Contributions from FSM National Government	1,000,000	-	1,000,000
Other	<u>72,536</u>	<u>322,599</u>	<u>395,135</u>
	<u>1,072,536</u>	<u>322,599</u>	<u>1,395,135</u>
Total additions	<u>29,243,438</u>	<u>322,964</u>	<u>29,566,402</u>
Deductions:			
Benefit payments:			
Retirement	14,410,066	67,401	14,477,467
Survivors	5,863,156	165,861	6,029,017
Disability	1,790,616	-	1,790,616
Lump sum	<u>267,515</u>	<u>-</u>	<u>267,515</u>
Total benefit payments	22,331,353	233,262	22,564,615
Refunds	22,432	-	22,432
Administrative	<u>1,331,329</u>	<u>47,499</u>	<u>1,378,828</u>
Total deductions	<u>23,685,114</u>	<u>280,761</u>	<u>23,965,875</u>
Change in net position	5,558,324	42,203	5,600,527
Net position at beginning of year	<u>49,704,403</u>	<u>122,203</u>	<u>49,826,606</u>
Net position at end of year	<u>\$ 55,262,727</u>	<u>\$ 164,406</u>	<u>\$ 55,427,133</u>

See Accompanying Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees  
FSM Social Security Administration:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Federated States of Micronesia Social Security Administration (the Administration), which comprise the statement of fiduciary net position as of December 31, 2019, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Administration's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2019-001 that we consider to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## The Administration's Response to Findings

The Administration's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Administration's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Deloitte & Touche LLP*

December 28, 2020

**FEDERATED STATES OF MICRONESIA SOCIAL SECURITY ADMINISTRATION  
(A COMPONENT UNIT OF THE FEDERATED STATES OF MICRONESIA  
NATIONAL GOVERNMENT)**

Schedule of Findings and Responses  
December 31, 2019

Finding No. 2019-001 – Biennial Certification or Questionnaire for Determination of Beneficiaries’ Eligibility

Criteria: The Administration has an informal policy of requiring certification or questionnaire signed by the beneficiaries as part of determining beneficiaries’ eligibility. The Administration may ask for evidence to determine whether beneficiaries are eligible for benefits after they become entitled and are receiving benefits.

Condition: The Administration has not sent biennial certifications or questionnaires to beneficiaries to update beneficiaries’ eligibility status since 2017. No formal documentation of the procedures to support determination of beneficiaries’ eligibility was on file.

Cause: The cause of this condition is primarily due to no formal policy in regard to eligibility determination, the absence of related procedures and review and the lack of adequate filing and document maintenance systems.

Effect: The effect of this condition is an inability to substantiate certain financial statement balances and financial statement transactions.

Recommendation: We recommend that the Administration establish formal policies regarding determination of eligibility status of beneficiaries, implement those procedures and maintain adequate documentation to support legitimacy of benefit payments.

Auditee Response and Corrective Action Plan: The bi-annual certification/questionnaire is an Administration’s internal office practice to complement its existing policies, procedures and directives that have been in place for years in order to mitigate the risk of paying benefits to beneficiaries who have ceased eligibilities. We believe that the Administration has a very strong internal control procedures with regards to determination of eligibility status of beneficiaries. These control procedures include hiring of Investigation Officers in the states of Chuuk and Pohnpei, whose major functions include collection of overpayments and to ensure that these overpayments are returned. The Investigation Officers investigate any matters relating to continued benefit eligibility. The administration also conducts earnings test every quarter to determine any beneficiaries who have returned to work. In addition, there are written policies, procedures and directives in place with regards to distribution of benefit checks and handling unclaimed checks. Furthermore, systems application to stop the benefits of surviving children once they reach 18 years of age is in place. These policies, procedures, directives, and System applications are part of Administration’s internal control procedures that have been strictly followed on an ongoing process. However, the Administration agrees to the Auditor’s recommendation and will make sure to put the bi-annual questionnaire in a policy form to add more strength to its existing procedures.

**FEDERATED STATES OF MICRONESIA SOCIAL SECURITY ADMINISTRATION  
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Unresolved Prior Year Findings  
December 31, 2019

There were no unresolved audit findings from prior year audits of the Administration.